

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Otsego County Road Commission	County Otsego
Fiscal Year End 12/31/07	Opinion Date 3/27/08	Date Audit Report Submitted to State 5/20/08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe) Single Audit	<input checked="" type="checkbox"/>			
Certified Public Accountant (Firm Name) James M. Anderson, P.C.		Telephone Number (989) 563-2450		
Street Address P.O. Box 255		City Roscommon	State MI	Zip 48653
Authorizing CPA Signe	 <small>Digitally signed by James M. Anderson, CPA DN: cn=James M. Anderson, c=US, o=James M. Anderson, P.C., email=jma@m33access.com Date: 2008.05.20 08:31:36 -0400</small>	Printed Name James M. Anderson, CPA		License Number 1101017419

**OTSEGO COUNTY ROAD COMMISSION
FINANCIAL REPORT
DECEMBER 31, 2007**

OTSEGO COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

John R. Deming
Member

Donald R. Huff
Chairman

Eugene S. Fleming
Vice Chairman

Michael A. Roper
Managing Director

Roberta M. Tholl
Office Manager

OTSEGO COUNTY ROAD COMMISSION

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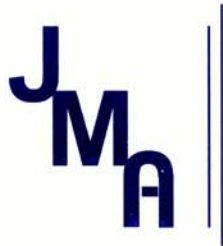
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OTSEGO COUNTY ROAD COMMISSION

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James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

P.O. Box 255 • Roscommon, MI 48653

Phone: (989) 563-2450 • Fax: (989) 563-3471 • E-mail: jma@m33access.com

INDEPENDENT AUDITOR'S REPORT

March 27, 2008

Board of County Road Commissioners
Otsego County Road Commission
Gaylord, MI 49734

I have audited the accompanying financial statements of the governmental activities and major fund of the Otsego County Road Commission, a component unit of the County of Otsego, Michigan as of and for the year ended December 31, 2007, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

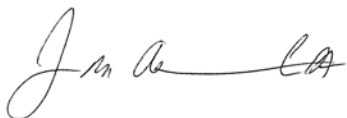
In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major fund of the Otsego County Road Commission as of December 31, 2007, and the respective changes in financial position where applicable there of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 27, 2008, on my consideration of the Otsego County Road Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

MEMBER MACPA and AICPA

The management's discussion and analysis are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Otsego County Road Commission's basic financial statements. The supplemental information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Otsego County Road Commission. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the Otsego County Road Commission. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "Jm Anderson".

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

**OTSEGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION & ANALYSIS
DECEMBER 31, 2007**

USING THIS ANNUAL REPORT

The Otsego County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

REPORTING THE ROAD COMMISSION AS A WHOLE

The statement of net assets and the statement of activities report information about the commission as a whole and about its activities in a way that helps answer the question on whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

REPORTING THE ROAD COMMISSION'S MAJOR FUND

Our analysis of the road commission's major fund begins on page 4. The fund financial statements begin on page 9 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental type.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

**OTSEGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)
DECEMBER 31, 2007**

THE ROAD COMMISSION AS A WHOLE

The road commission's net assets increased \$1,720,433 or approximately 9.8% for the year ended December 31, 2007. The net assets and change in net assets are summarized below.

Net assets as of the year ended December 31, 2007 and 2006 follows:

	Governmental Activities		Increase (Decrease)
	<u>2007</u>	<u>2006</u>	
Current and Other Assets	\$ 2,653,526	\$ 2,011,481	\$ 642,045
Capital Assets (Less Depreciation)	<u>17,315,667</u>	<u>16,249,683</u>	<u>1,065,984</u>
Total Assets	<u>19,969,193</u>	<u>18,261,164</u>	<u>1,708,029</u>
Current Liabilities	517,200	450,896	66,304
Other Liabilities	<u>171,022</u>	<u>249,730</u>	<u>(78,708)</u>
Total Liabilities	<u>688,222</u>	<u>700,626</u>	<u>(12,404)</u>
Net Assets			
Invested in Capital Assets	17,243,722	16,072,727	1,170,995
Unrestricted	<u>2,037,249</u>	<u>1,487,811</u>	<u>549,438</u>
Total Net Assets	<u>\$ 19,280,971</u>	<u>\$ 17,560,538</u>	<u>\$ 1,720,433</u>

**OTSEGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)
DECEMBER 31, 2007**

A summary of changes in net assets for the year ended December 31, 2007 and 2006 follows:

	Governmental Activities		Increase (Decrease)
	2007	2006	
Program Revenues:			
Charges for Services (includes permits)	\$ 1,103,162	\$ 1,274,765	\$ (171,603)
Federal Sources	1,458,124	893,765	564,359
State Sources	4,311,702	3,899,465	412,237
Contributions from Local Units	386,609	382,366	4,243
Interest Income	51,709	61,386	(9,677)
General Revenues:			
Gain on Disposal of Equipment	2,139	19,841	(17,702)
Other Miscellaneous Sources	14,950	64,924	(49,974)
Total Revenues	<u>7,328,395</u>	<u>6,596,512</u>	<u>731,883</u>
Program Expenses:			
Primary Roads:			
Maintenance	1,571,902	1,545,200	26,702
Local Roads:			
Maintenance	1,662,379	1,965,303	(302,924)
State Trunkline:			
Maintenance	1,254,383	1,223,777	30,606
Equipment Expense	149,046	16,534	132,512
Administrative	326,911	324,377	2,534
Infrastructure Depreciation	612,078	1,225,175	(613,097)
Compensated Absences	26,303	497	25,806
Interest	4,960	8,467	(3,507)
Total Expenses	<u>5,607,962</u>	<u>6,309,330</u>	<u>(701,368)</u>
Increase (Decrease) in Net Assets	<u>\$ 1,720,433</u>	<u>\$ 287,182</u>	<u>\$ 1,433,251</u>

**OTSEGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)
DECEMBER 31, 2007**

THE ROAD COMMISSION'S FUND

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2007, the fund balance of the general operations fund increased by \$575,741 as compared to a decrease of \$374,220 in the fund balance for the year ended December 31, 2006. Total revenues were \$7,328,395, an increase of \$731,883 as compared to last year. This change in revenues resulted primarily from funding from federal and state grants for several projects including the I-75 overpass on McCoy Road.

Total expenditures were \$6,752,659, a decrease of \$395,315, as compared to last year. This change in expenditures is primarily due to the reduction of locally funded projects and the reduction of capital purchases in 2007 compared to 2006.

BUDGETARY HIGHLIGHTS

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year. The revenue budget for 2007 was higher than the actual receipts by \$709,989. This is primarily due to the MTF funds and project grant revenues received being less than budgeted.

Road Commission expenditures were projected as \$8,081,149 while actual expenditures were \$6,752,654. This resulted in total expenditures being under budget by \$1,328,495. This is primarily due to special project expenditures being less in 2007 than expected.

**OTSEGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)
DECEMBER 31, 2007**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2007, the road commission had \$17,315,667 invested in capital assets as follows:

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 170,157	\$ 159,408	\$ 10,749
Other Capital Assets			
Buildings and Improvements	2,999,960	2,999,960	-0-
Road Equipment	5,239,565	5,265,492	(25,927)
Other Equipment	194,880	194,438	442
Infrastructure and Improvements	<u>29,406,786</u>	<u>27,338,817</u>	<u>2,067,969</u>
Total Capital Assets at Historic Cost	38,011,348	35,958,115	2,053,233
Total Accumulated Depreciation	<u>(20,695,681)</u>	<u>(19,708,432)</u>	<u>(987,249)</u>
Total Net Capital Assets	<u>\$ 17,315,667</u>	<u>\$ 16,249,683</u>	<u>\$ 1,065,984</u>

Current year's major additions included the following:

Various Projects (Primary and Local)	\$ 2,067,969	\$ 2,059,155
Trucks/Equipment	\$ 31,864	\$ 387,940

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The board of county road commissioners considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy. The road commission derives approximately 60% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed. Based on projections of the 2008 MTF reduction of 4%, the 2008 revenue budget was adjusted accordingly.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Otsego County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interests of the motoring public and the citizens of Otsego County.

**OTSEGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)
DECEMBER 31, 2007**

CONTACTING THE ROAD COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Otsego County Road Commission Administrative Offices at 669 W. McCoy Road, P.O. Box 537, Gaylord MI 49734-0537.

OTSEGO COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
DECEMBER 31, 2007

ASSETS

Cash and Investments	\$ 1,238,687
Accounts receivable	
Sundry	3,550
Due from other governmental units	898,206
Inventories	513,083
Capital Assets (Net of Accumulated Depreciation)	<u>17,315,667</u>
Total Assets	<u>19,969,193</u>

LIABILITIES

Current Liabilities	
Accounts payable	32,797
Accrued liabilities	97,817
Due to other governmental units	84,510
Advances from MDOT	302,076
Non Current Liabilities	
Equipment Installment Loan	71,945
Vested Employee Benefits Payable	<u>99,077</u>
Total Liabilities	<u>688,222</u>

NET ASSETS

Investment in Capital Fixed Assets	
Net of Related Debt	17,243,722
Restricted for County Roads	<u>2,037,249</u>
Total Net Assets	<u>\$ 19,280,971</u>

See accompanying notes to the financial statements.

OTSEGO COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

Program Expenses	
Primary Road Maintenance	\$ 1,571,902
Local Road Maintenance	1,662,379
State Trunkline Maintenance	1,254,383
Net Equipment Expense	149,046
Net Administrative Expense	326,911
Infrastructure Depreciation	612,078
Compensated Absences	26,303
Interest Expense	<u>4,960</u>
Total Program Expenses	<u>5,607,962</u>
Program Revenue	
Federal Grants	1,458,124
State Grants	4,311,702
Contributions from Local Units	386,609
Charges for Services	1,043,107
Investment Earnings	<u>126,714</u>
Total Program Revenue	<u>7,326,256</u>
Net Program Revenue	<u>1,718,294</u>
General Revenue	
Gain (Loss) on Equipment Disposal	<u>2,139</u>
Total General Revenues	<u>2,139</u>
Change in Net Assets	1,720,433
Net Assets	
Beginning of Year	<u>17,560,538</u>
End of Year	<u><u>\$ 19,280,971</u></u>

See accompanying notes to the financial statements.

OTSEGO COUNTY ROAD COMMISSION
BALANCE SHEET
DECEMBER 31, 2007

	Governmental <u>Fund Type</u> General <u>Operating</u>
ASSETS	
Cash demand and investments	\$ 1,238,687
Accounts receivable:	
Sundry	3,550
Due from other governmental units	898,206
Inventories	<u>513,083</u>
Total Assets	<u><u>\$ 2,653,526</u></u>
LIABILITIES AND FUND EQUITY	
Accounts payable	\$ 32,797
Accrued liabilities	97,817
Due to other governmental units	84,510
Advances from governmental units	<u>302,076</u>
Total Liabilities	<u>517,200</u>
Fund Equity:	
Fund Balance:	
Undesignated	<u>2,136,326</u>
Total Fund Equity	<u>2,136,326</u>
Total Liabilities and Fund Equity	<u><u>\$ 2,653,526</u></u>

See accompanying notes to the financial statements.

OTSEGO COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO
THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007

Total governmental fund balance	\$ 2,136,326
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Amounts reported for governmental activities in
the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	17,315,667
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Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(171,022)</u>
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Net assets of governmental activities	<u><u>\$ 19,280,971</u></u>
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See accompanying notes to the financial statements.

OTSEGO COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
DECEMBER 31, 2007

	<u>Operating Fund</u>
Revenues	
Federal Grants	\$ 1,458,124
State Grants	4,311,702
Contributions From Local Units	255,020
Charges for Services	1,043,107
Interest and Rents	106,754
Other Revenue	<u>153,688</u>
Total Revenues	<u>7,328,395</u>
Expenditures	
Public Works	7,026,981
Net Capital Outlay	(384,298)
Debt Service	<u>109,971</u>
Total Expenditures	<u>6,752,654</u>
Excess of Revenues Over (Under) Expenditures	575,741
Fund Balance - January 1, 2007	<u>1,560,585</u>
Fund Balance - December 31, 2007	<u><u>\$ 2,136,326</u></u>

See accompanying notes to the financial statements.

OTSEGO COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

Net Change in fund balance - total governmental funds	\$ 575,741
Amounts reported for governmental activities in the statement are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities.	1,065,984
Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the statement of net assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets.	105,011
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense).	<u>(26,303)</u>
Change in net assets of governmental activities.	<u>\$ 1,720,433</u>

See accompanying notes to the financial statements.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Otsego County Road Commission conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

DESCRIPTION OF ROAD COMMISSION OPERATIONS - The Otsego County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Otsego, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, reimbursements from the Department of State Highways for work performed by the County on State trunkline and contributions from other local units of government for work performed by the Road Commission work force.

The Road Commission which is established pursuant to the County Road Law (MCL224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. A different Road Commissioner is elected biannually to serve a six year term.

FINANCIAL REPORTING ENTITY - The Road Commission is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. This financial report has been prepared to meet this State requirement.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity" for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Otsego County Road Commission, a discretely presented component unit of Otsego County, and include the basic financial statements of the Road Commission

BASIS OF PRESENTATION - GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all the Otsego County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING – GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: charges to customer or applicants for goods or services or privileges provided; Michigan transportation funds; and State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING – FUND FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING

The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 621 of 1978, in the preparation and execution of its annual general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law.

CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

INVENTORY

Inventories consisting of equipment parts and supplies of \$177,383 and road materials of \$335,700, are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are recorded at average cost which approximates market.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Otsego County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Otsego County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the statement of net assets.

ADVANCES FROM THE STATE OF MICHIGAN

The State of Michigan advances funds on a State maintenance agreement it has with the Otsego County Road Commission for specified maintenance which the Road Commission will perform during the year and for equipment purchases. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCRUED VACATION AND SICK - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts.

EQUIPMENT RENTALS - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

DEPRECIATION - Depreciation is computed on the sum-of-the-years-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure-Roads	8 to 30 years
Infrastructure-Bridges	12 to 50 years

LONG-TERM OBLIGATIONS - In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in operating fund statement of net assets.

ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE B - CASH AND INVESTMENTS

Michigan compiled Laws 129.91, authorizes the Road Commission to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Imprest Cash	\$ 200
Cash Demand and Time Deposits	358,420
Investments	<u>880,067</u>
Total	<u>\$1,238,687</u>

Deposits

At year-end the carrying amount of the County Road Commissions deposits were \$358,420 and the bank balance was \$395,809. According to the Federal Deposit Insurance Corporation, approximately 44% of the total bank balance was covered by federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to municipal money markets.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE B - CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

As of December 31, 2007, the Road Commission had the following investment:

	<u>Reported Amount (Fair Value)</u>
Investments	
Fifth Third Securities Inc.	<u>\$ 880,067</u>

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual fund does not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amounts that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counter party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE C - CAPITAL ASSETS

The following is a summary of changes in the Capital Assets Account Group.

	<u>Balance 1/01/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/07</u>
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 159,408	\$ 10,749	\$ -0-	\$ 170,157
Subtotal	<u>159,408</u>	<u>10,749</u>	<u>-0-</u>	<u>170,157</u>
Capital Assets Being Depreciated:				
Buildings	2,999,960	-0-	-0-	2,999,960
Road Equipment	5,265,492	31,864	57,791	5,239,565
Shop Equipment	95,153	1,139	-0-	96,292
Office Equipment	76,879	3,110	3,807	76,182
Engineers Equipment	15,846	-0-	-0-	15,846
Yard & Storage Equipment	1,800	-0-	-0-	1,800
Depletable Assets	4,760	-0-	-0-	4,760
Traffic Signals	44,756	-0-	-0-	44,756
Infrastructure-Bridges	855,545	71,394	-0-	926,939
Infrastructure-Roads	<u>26,438,516</u>	<u>1,996,575</u>	<u>-0-</u>	<u>28,435,091</u>
Total	<u>35,798,707</u>	<u>2,104,082</u>	<u>61,598</u>	<u>37,841,191</u>
Less Accumulated Depreciation:				
Buildings	1,014,149	71,114	-0-	1,085,263
Road Equipment	4,357,632	354,810	57,291	4,655,151
Shop Equipment	76,236	6,429	-0-	82,665
Office Equipment	68,598	2,855	2,746	68,707
Engineers Equipment	15,846	-0-	-0-	15,846
Yard & Storage Equipment	1,800	-0-	-0-	1,800
Traffic Signals	14,125	2,984	-0-	17,109
Infrastructure-Bridges	211,768	28,981	-0-	240,749
Infrastructure-Roads	<u>13,948,278</u>	<u>580,113</u>	<u>-0-</u>	<u>14,528,391</u>
Total	<u>19,708,432</u>	<u>1,047,286</u>	<u>60,037</u>	<u>20,695,681</u>
Net Capital Assets Being Depreciated	<u>16,090,275</u>	<u>1,056,796</u>	<u>1,561</u>	<u>17,145,510</u>
Total Net Capital Assets	<u>\$16,249,683</u>	<u>\$ 1,067,545</u>	<u>\$ 1,561</u>	<u>\$17,315,667</u>

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE D - PENSION PLAN

DEFINED BENEFIT PENSION PLAN

Plan Description - The Otsego County Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability in the most efficient and effective manner possible. As such, MERS is a non-profit entity qualified under section 401 (a) of the Internal Revenue Code, which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the tax payers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

All full-time Road Commission employees and Commissioners are eligible to participate in the system. Benefits vest after ten years of service. Employees who retire at or after age 60 with 10 years credited service are entitled to an annual retirement benefit, payable monthly for life in an amount equal to 2.0 percent of the member's five-year final average compensation. The system also provides death and disability benefits which are established by State Statute.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE D - PENSION PLAN (CONTINUED)

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 2006. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2006 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/06)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 3,150,162
Terminated employees not yet receiving benefits	91,933
Current Employees:	
Accumulated employees contributions including allocated investment income	74,530
Employer financed	<u>4,333,219</u>
Total actuarial accrued liability	7,649,844
Net assets available for benefits, at actuarial value (Market value is \$6,369,685)	<u>6,281,809</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 1,368,035</u>

GASB 27 INFORMATION (as of 12/31/06)

Fiscal year beginning	January 1, 2008
Annual required contribution (ARC)	\$ 208,476
Amortization factor used	0.054719

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE D RETIREMENT PLAN (CONTINUED)

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2006 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Annual Pension Cost

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 216,904	100%	\$ -0-
2005	215,640	100%	-0-
2006	208,476	100%	-0-

The Road Commission was required to contribute \$208,302 for the year ended December 31, 2007. Payments were based on contribution calculations made by MERS.

Aggregate Accrued Liabilities - Comparative Schedule

<u>Actuarial Valuation Date December 31</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
2004	\$ 5,706,795	\$ 7,209,588	\$ 1,502,793	79%	\$ 1,639,489	92%
2005	5,931,141	7,422,771	1,491,630	80%	1,637,342	91%
2006	6,281,809	7,649,844	1,368,035	82%	1,608,666	85%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, 2000, and 2004 valuations.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE E - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE F - LONG TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	Balance 12/31/06	Additions	Reductions	Balance 12/31/07
General Obligation:				
Equipment Installment Loan	\$ 176,956	\$ -0-	\$ 105,011	\$ 71,945
Compensated absences	72,774	(1) 26,303	-0-	99,077
Total	<u>\$ 249,730</u>	<u>\$ 26,303</u>	<u>\$ 105,011</u>	<u>\$ 171,022</u>

(1) The change in compensated absences is shown as a net addition.

The Road Commission entered into an installment loan with Fifth Third Bank for the purchase of three International trucks on July 6, 2004. The initial debt was \$228,073 with interest accruing at 2.92%. The equipment installment agreement required 36 payments of \$6,624.60 per month with the final payment on July 6, 2007.

The Road Commission entered into an installment loan with First Federal of Northern Michigan for the purchase of two International 5500I plow trucks on March 1, 2006. The initial debt was \$177,240 with interest accruing at 4.29%. The equipment installment agreement requires 36 payments of \$5,255.84 per month with the final payment due on March 1, 2009.

Annual Debt Service Requirements:	Principal	Interest	Total
2008	\$ 61,242	\$ 1,828	\$ 63,070
2009	10,703	56	10,759
Totals	<u>\$ 71,945</u>	<u>\$ 1,884</u>	<u>\$ 73,829</u>

Substantially all employees of the Road Commission can accumulate vacation hours. The accumulated hours at December 31, 2007 at current wage rates amounted to \$99,077 and is reflected in the Long-Term Debt Group. Sick leave is not vested and accordingly is not accrued.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE G - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2007 the County Road Commission incurred expenditures in certain areas which were in excess of the amounts appropriated as follows:

<u>Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Local Road:			
Heavy Maintenance	\$ 1,553,082	\$ 1,662,379	\$ (109,297)
Equipment Expense - Net	\$ 53,048	\$ 149,046	\$ (95,998)
Administrative Expense - Net	\$ 292,035	\$ 326,911	\$ (34,876)
Capital outlay - Net	\$ (419,522)	\$ (384,298)	\$ (35,224)
Interest Expenditures	\$ 4,940	\$ 4,960	\$ (20)

NOTE H - RISK MANAGEMENT

Otsego County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Otsego Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

At December 31, 2007, there were no claims which exceeded insurance coverage. The Road Commission had no significant reduction in insurance coverage from the previous years.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE I - FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation that Road Commissioners report total federal financial assistance for Highway Research, Planning and construction pertaining to their County. However, only the federal financial assistance applicable to negotiated account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by the Michigan Department of Transportation.

During the year ended December 31, 2007, the Road Commission recorded \$458,828 of Department of Transportation Federal Highway grant money expended on public road improvement projects where work was performed by independent contractors or under non-negotiated contracts between the Road Commission and the Michigan Department of Transportation.

NOTE J - POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note D, the County Road Commission provides post retirement health care benefits, payment of Blue Cross health premiums to 25 people who have retired from the Road Commission. The premiums for the retirees amounted to \$315,061 for the year ended December 31, 2007.

REQUIRED SUPPLEMENTAL INFORMATION

OTSEGO COUNTY ROAD COMMISSION
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGETARY COMPARISON SCHEDULE
TWELVE MONTHS ENDED DECEMBER 31, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Michigan Transportation Funds:				
Primary road	\$	\$	\$ 2,200,795	\$
Local road			1,297,716	
Snow removal			230,748	
Engineering			<u>10,000</u>	
Subtotal	<u>(1)4,216,260</u>	<u>(1)3,852,881</u>	<u>3,739,259</u>	<u>(113,622)</u>
Federal Aid:				
Surface transportation program	480,000	240,000	240,018	18
High priority	936,128	1,640,228	1,218,106	(422,122)
State Aid:				
State forest road funds	-0-	-0-	85,109	85,109
Jobs - Today Grant	234,032	396,332	304,527	(91,805)
DNR - Snowmobile Grant	-0-	-0-	182,807	182,807
State trunkline maintenance	1,200,000	1,267,411	1,043,107	(224,304)
County Raised Funds:				
Township contributions and other contributions	151,843	375,503	386,609	11,106
Other Revenue:				
Gain on sale of equipment interest, salvage sales, permits and refunds	-0-	-0-	2,139	2,139
	<u>150,000</u>	<u>266,029</u>	<u>126,714</u>	<u>(139,315)</u>
Total Revenue	<u>\$ 7,368,263</u>	<u>\$ 8,038,384</u>	<u>\$ 7,328,395</u>	<u>\$ (709,989)</u>

(1) Budgeted in Total

OTSEGO COUNTY ROAD COMMISSION
STATEMENT OF EXPENDITURES -
BUDGETARY COMPARISON SCHEDULE
TWELVE MONTHS ENDED DECEMBER 31, 2007

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road:				
Heavy maintenance	\$ 2,327,010	\$ 1,951,351	\$ 1,014,668	\$ 936,683
Maintenance	1,665,000	1,305,608	1,261,557	44,051
Local Road:				
Heavy maintenance	69,125	1,879,048	1,358,037	521,011
Maintenance	2,000,000	1,553,082	1,662,379	(109,297)
Subtotal	6,061,135	6,689,089	5,296,641	1,392,448
State Trunkline Maintenance	1,250,000	1,356,528	1,254,383	102,145
Equipment Expense - Net:				
Direct	1,000,000	860,663	934,774	(74,111)
Indirect	500,000	481,387	520,711	(39,324)
Operating	380,000	313,948	320,558	(6,610)
Less:				
Equipment Rental	(1,850,000)	(1,602,950)	(1,626,997)	24,047
Subtotal	30,000	53,048	149,046	(95,998)
Administrative Expense - Net:				
Administrative expense			465,103	
Less:				
Overhead - State				
trunkline			(137,580)	
Purchase discounts and				
Handling Charges			(612)	
Subtotal	(1) 350,000	292,035	326,911	(34,876)
Capital Outlay - Net:				
Capital Outlay	39,000	34,815	36,113	(1,298)
Less:				
Depreciation	(540,000)	(454,337)	(418,850)	(35,487)
Equipment retirements	-0-	-0-	(1,561)	1,561
Subtotal	(501,000)	(419,522)	(384,298)	(35,224)
Long-Term Debt Payments	97,826	105,031	105,011	20
Interest Expenditures	4,990	4,940	4,960	(20)
Total Expenditures	\$ 7,292,951	\$ 8,081,149	\$ 6,752,654	\$ 1,328,495

(1) Budgeted in total

SUPPLEMENTAL SCHEDULES

OTSEGO COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES OF FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Total Revenues and other Financing Sources	\$ 2,956,154	\$ 2,813,672	\$ 1,558,569	\$ 7,328,395
Total Expenditures	<u>2,424,954</u>	<u>3,303,139</u>	<u>1,024,561</u>	<u>6,752,654</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures before Optional Transfers	531,200	(489,467)	534,008	575,741
Optional Transfers / Adjustments	<u>(489,467)</u>	<u>630,540</u>	<u>(141,073)</u>	<u>-0-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures After Transfers	41,733	141,073	392,935	575,741
Fund Balance - January 1	<u>-0-</u>	<u>-0-</u>	<u>1,560,585</u>	<u>1,560,585</u>
Fund Balance - December 31	<u><u>\$ 41,733</u></u>	<u><u>\$ 141,073</u></u>	<u><u>\$ 1,953,520</u></u>	<u><u>\$ 2,136,326</u></u>

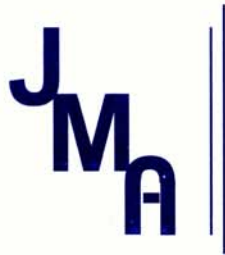
OTSEGO COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Motor Vehicle Highway Funds:				
Primary road	\$ 2,200,795	\$ -0-	\$ -0-	\$ 2,200,795
Local road	-0-	1,297,716	-0-	1,297,716
Snow removal	-0-	230,748	-0-	230,748
Engineering	<u>6,291</u>	<u>3,709</u>	<u>-0-</u>	<u>10,000</u>
Subtotal	<u>2,207,086</u>	<u>1,532,173</u>	<u>-0-</u>	<u>3,739,259</u>
Federal Aid:				
Surface Transportation Program	240,018	-0-	-0-	240,018
High Priority	218,810	999,296	-0-	1,218,106
State Aid:				
State Forest Road Funds	52,730	32,379	-0-	85,109
Jobs Today Grant	54,703	249,824	-0-	304,527
DNR Snowmobile Grant	182,807	-0-	-0-	182,807
State Trunkline Maintenance	-0-	-0-	1,043,107	1,043,107
County Raised Funds:				
Township contributions and other contributions	-0-	-0-	386,609	386,609
Other Revenue:				
Gain on Sale of Equipment	-0-	-0-	2,139	2,139
Interest, Salvage Sales, Permits and Refunds	<u>-0-</u>	<u>-0-</u>	<u>126,714</u>	<u>126,714</u>
Total Revenue	<u>\$ 2,956,154</u>	<u>\$ 2,813,672</u>	<u>\$ 1,558,569</u>	<u>\$ 7,328,395</u>

OTSEGO COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Primary Road:				
Heavy maintenance	\$ 1,014,668	\$ -0-	\$ -0-	\$ 1,014,668
Maintenance	1,261,557	-0-	-0-	1,261,557
Local Road:				
Heavy maintenance	-0-	1,358,037	-0-	1,358,037
Maintenance	-0-	1,662,379	-0-	1,662,379
Subtotal	2,276,225	3,020,416	-0-	5,296,641
State Trunkline Maintenance	-0-	-0-	1,254,383	1,254,383
Equipment Expense - Net:				
Direct	233,226	422,425	279,123	934,774
Indirect	129,917	235,310	155,484	520,711
Operating	79,979	144,860	95,719	320,558
Less:				
Equipment Rental	(405,935)	(735,241)	(485,821)	(1,626,997)
Subtotal	37,187	67,354	44,505	149,046
Administrative Expense - Net:				
Administrative expense	158,693	306,410	-0-	465,103
Less:				
Overhead - State trunkline	(46,942)	(90,638)	-0-	(137,580)
Purchase discounts and Handling charges	(209)	(403)	-0-	(612)
Subtotal	111,542	215,369	-0-	326,911
Capital Outlay - Net:				
Capital Outlay	-0-	-0-	36,113	36,113
Less:				
Depreciation	-0-	-0-	(418,850)	(418,850)
Equipment retirements	-0-	-0-	(1,561)	(1,561)
Subtotal	-0-	-0-	(384,298)	(384,298)
Long-Term Debt Payments	-0-	-0-	105,011	105,011
Interest Expense	-0-	-0-	4,960	4,960
Total Expenditures	<u>\$ 2,424,954</u>	<u>\$ 3,303,139</u>	<u>\$ 1,024,561</u>	<u>\$ 6,752,654</u>

COMPLIANCE REPORTS



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

P.O. Box 255 • Roscommon, MI 48653

Phone: (989) 563-2450 • Fax: (989) 563-3471 • E-mail: jma@m33access.com

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

March 27, 2008

Board of County Road Commissions
Otsego County Road Commission
Gaylord, MI 49734

Compliance

I have audited the compliance of the Otsego County Road Commission with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. Otsego County Road Commission's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Otsego County Road Commission's management. My responsibility is to express an opinion on the Otsego County Road Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Otsego County Road Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Otsego County Road Commission's compliance with those requirements.

In my opinion, Otsego County Road Commission complied in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

MEMBER MACPA and AICPA

Internal Control Over Compliance

The management of Otsego County Road Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Otsego County Road Commission's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Road Commission's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a more than remote likelihood that noncompliance with a type of compliance requirement of a federal program is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

I have audited the financial statements of Otsego County Road Commission as of and for the year ended December 31, 2007, and have issued my report thereon dated March 27, 2008. My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Otsego County Road Commission's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Road Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

OTSEGO COUNTY ROAD COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

Federal Grantor/Pass-Through Grantor/Program Title	State CFDA Number	Grantor Number	Project	Federal Expenditures
<u>U.S. Department of Transportation</u>				
Pass-Through Programs from the State of Michigan Department of Transportation (MDOT) Administered by the Otsego County Road Commission:				
Highway Research Planning & Construction	20.205	HPSL0769(002)	89440	<u>\$ 999,296</u>
Pass-Through Programs from the State of Michigan Department of Transportation (Note I):				
Highway Research Planning & Construction	20.205	HPSL0769(005)	89894	218,810
Highway Research Planning & construction	20.205	STP0769(003)	87742	<u>240,018</u>
Subtotal - MDOT				<u>458,828</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u><u>\$ 1,458,124</u></u>

OTSEGO COUNTY ROAD COMMISSION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Otsego County Road Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

P.O. Box 255 • Roscommon, MI 48653

Phone: (989) 563-2450 • Fax: (989) 563-3471 • E-mail: jma@m33access.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

March 27, 2008

Board of County Road Commissioners
Otsego County Road Commission
Gaylord, MI 49734

I have audited the component unit financial statements of the governmental activities and major fund of the Otsego County Road Commission, a Special Revenue Fund of the County of Otsego, Michigan, as of and for the year ended December 31, 2007, and have issued my report thereon dated March 27, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the Otsego County Road Commission's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Otsego County Road Commission's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Otsego County Road Commission's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

MEMBER MACPA and AICPA

Financial Statement Preparation

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the Road Commission's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). As is the case with most small and medium-sized entities, the Road Commission has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statement and footnotes as part of its external financial reporting process. Accordingly, the Road Commission's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot, by definition, be considered a part of the government's internal controls. This condition was caused by the Road Commission's determination that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Road Commission to perform this task internally.

A Control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Otsego County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control. I consider the deficiencies described above to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Otsego County Road Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of County Road Commissioners, management, federal awarding agencies, and pass-through agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jm Anderson", with a stylized flourish at the end.

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

OTSEGO COUNTY ROAD COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2007

The Otsego County Road Commission was not required to have a Single Audit for the year ended December 31, 2006. Therefore there were no prior audit findings.

OTSEGO COUNTY ROAD COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Material weakness(es) identified:	_____ Yes	<u> X </u> No
Significant Deficiencies identified that are not considered to be material weaknesses?	<u> X </u> Yes	_____ No
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified:	_____ Yes	<u> X </u> No
Significant Deficiencies identified that are not considered to be material weaknesses?	_____ Yes	<u> X </u> No
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133?	_____ Yes	<u> X </u> No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.205	Highway Research Planning and Construction

Dollar threshold used to distinguish between Type A and Type B Programs:	\$300,000
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Auditee qualified as low-risk auditee?	_____ Yes	<u> X </u> No
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OTSEGO COUNTY ROAD COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007

B. Financial Statement Findings

1) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the governments's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

As a result of this condition, the government lacks internal control over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

C. Federal Award Findings and Questioned Costs

None



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

P.O. Box 255 • Roscommon, MI 48653

Phone: (989) 563-2450 • Fax: (989) 563-3471 • E-mail: jma@m33access.com

March 27, 2008

Board of County Road Commissioners
Otsego County Road Commission
Gaylord, MI 49734

I have audited the financial statements of the governmental activity and major fund of the Otsego County Road Commission for the year ended December 31, 2007, and have issued my report thereon dated March 27, 2008. Professional standards require that I provide you with the following information related to my audit.

My Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in my engagement letter dated March 25, 2008, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

As part of my audit, I considered the internal control of the Otsego County Road Commission. Such considerations were solely for the purpose of determining my audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of the Otsego County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Otsego County Road Commission are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. I noted no transactions entered into by the Otsego County Road Commission during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

MEMBER MACPA and AICPA

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Otsego County Road Commission financial reporting process (that is, cause future financial statements to be materially misstated). In my judgment, none of the adjustments I proposed, whether recorded or unrecorded by the Otsego County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on Otsego County Road Commission's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Otsego County Road Commission's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing my audit.

This information is intended solely for the use of management and the Board of Road Commissioners and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "J M Anderson".

James M. Anderson, P.C.
Certified Public Accountant